Department of
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Investment Limits

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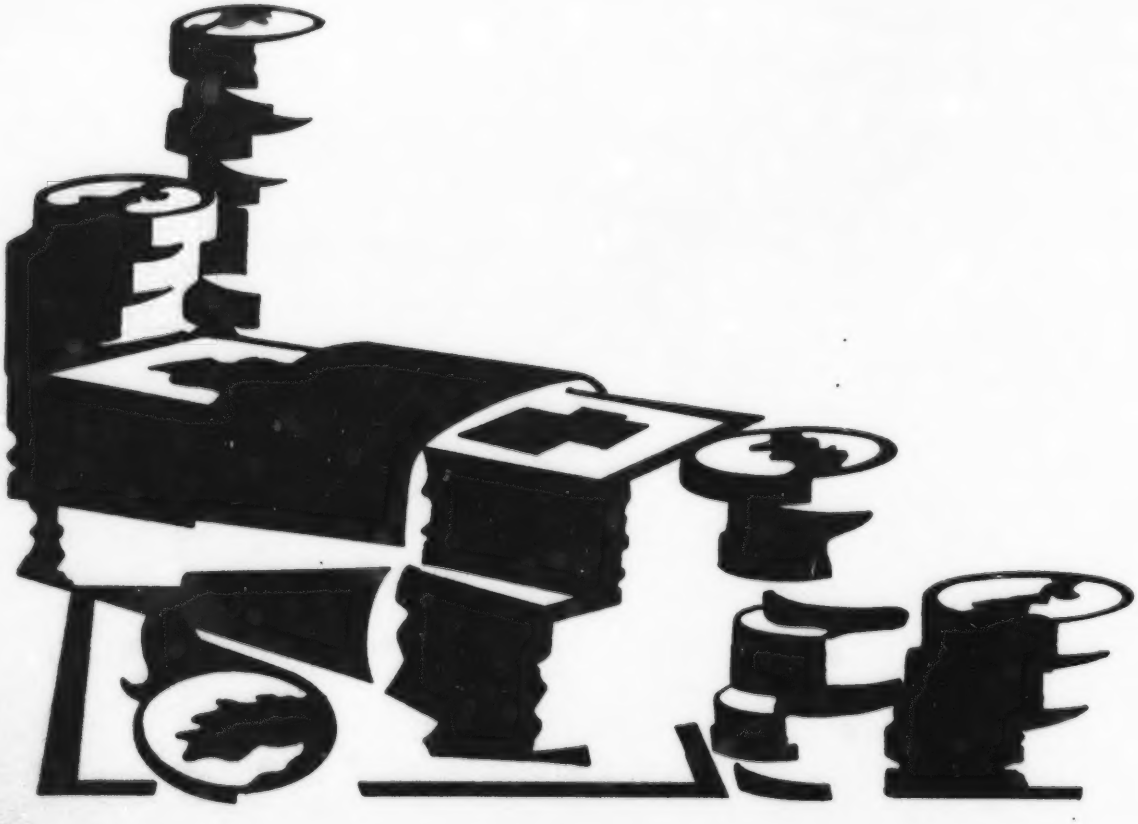

INVESTMENT LIMITS

- SHEEP -

A number of basic assumptions were made to estimate investment of borrowed capital limits for the sheep enterprise. These assumptions were necessary because of the lack of actual on-farm data. They are based on the observations and experience of department staff in working with sheep producers. These assumptions and the methodology used in this paper are set out below.

ASSUMPTIONS:

1. Gross Receipts - Gross receipts is the sum of lamb and wool sales calculated on a per ewe basis. Lamb sales were estimated on the basis of eighty (80) percent of the lambs being sold as market lambs, weighing an average of 41 kilograms each. The remaining twenty (20) percent of lambs were sold as feeder lambs at an average weight of 32 kilograms each. Wool sales averaged 2.73 kilograms per ewe at a price of $1.83 per kilogram. In the above calculations, the price spread between the two classes of lambs sold was $0.142 per kilogram - the higher price being in favor of the feeder lambs. Also included in gross receipts are cull ewes, with a replacement percentage of 20% being used. Cull ewes were sold for $35.00 each, with replacements coming from the original flock.

2. Expenses - Expenses were estimated for the sheep enterprise from information supplied by the Livestock Services Branch. Expenses include all cash operating costs. They are listed in the table on the following page. These costs were calculated on the basis of a 130 percent lamb crop. Expenses will change by $0.44 for each five (5) percent change in lambing percentage.

Hay - 303 kg @ $.053 per kg (variable cost)	$ 16.06
Grain - 45 kg @ $.199 per kg	8.96
Salt & Minerals	0.80
Vet & Drugs	5.01
Ewe Mortality	3.75
Pasture - Hay Equivalent 1.36 kg/day @ $.053 kg x 180 Days	12.97
Shearing	1.40
Fencing	3.04
Marketing	3.12
Interest - Operating Capital @ 14%	3.64
TOTAL OPERATING COSTS	$ 58.75

3. Labor - Operator labor was estimated to be $23.81 per ewe. This amount represents a return to the operator for his labor skills and must be considered to be a minimum living allowance.

4. Formula - The following formula was then used to calculate a residual to cover fixed or ownership costs.

GROSS RECEIPTS - EXPENSES - LABOR = RESIDUAL FOR FIXED COSTS

5. Fixed Costs - Fixed costs, by our definition, includes depreciation, interest, repairs, taxes and insurance. Annual fixed costs were estimated to be 22.625 percent of total investment.

The following basic assumptions were used to estimate the annual charge:

Depreciation was calculated in the standard manner on buildings, equipment and livestock at 5, 12 and 20 percent respectively.

Interest was calculated in the usual manner on land and buildings at 8 percent, and on equipment and livestock at 14 percent.

Repairs were calculated in the usual manner on buildings and equipment at 2.5 and 3 percent respectively.

Taxes were estimated to be 2 percent of the average value of buildings.

Insurance was estimated on buildings and livestock at 3 percent of the average value.

Given the above basic data, investment limits were estimated for various lamb price - lambing percentage combinations. These investment limits are presented in the table on the following page.

PRICE/MKT	LAMBING PERCENTAGE														
LAMB $/kg	120	125	130	135	140	145	150	155	160	165	170	175	180	185	190
$1.35	***	***	***	***	***	***	***	***	10	19	29	39	49	59	69
$1.40	***	***	***	***	***	***	1	11	22	32	42	53	63	74	84
$1.45	***	***	***	***	***	1	12	23	34	45	55	66	77	88	99
$1.50	***	***	***	***	1	12	23	35	46	57	68	80	91	102	113
$1.55	***	***	***	***	11	23	35	46	58	70	81	93	105	116	128
$1.60	***	***	***	10	22	34	46	58	70	82	94	107	119	131	143
$1.65	***	***	7	20	32	45	57	70	82	95	107	120	132	145	158
$1.70	***	4	17	30	42	55	68	81	94	107	120	133	146	159	172
$1.75	***	13	26	39	53	66	80	93	107	120	133	147	160	174	187
$1.80	4	22	36	49	63	77	91	105	119	133	146	160	174	188	202
$1.85	13	31	45	59	74	88	102	117	131	145	159	174	188	202	217
$1.90	21	40	55	69	84	99	114	128	143	158	172	187	202	217	231
$1.95	30	49	64	79	94	110	125	140	155	170	185	201	216	231	246
$2.00	39	58	74	89	105	120	136	152	167	183	198	214	230	245	261
$2.05	47	67	83	99	115	131	147	163	179	195	211	227	243	259	275
$2.10	56	76	93	109	126	142	159	175	191	208	224	241	257	274	290
$2.15	65	85	102	119	136	153	170	187	204	220	237	254	271	288	305
$2.20	73	95	112	129	146	164	181	198	216	233	250	268	285	302	320
$2.25	82	104	121	139	157	175	192	210	228	246	263	281	299	317	334
$2.30	91	113	131	149	167	185	204	222	240	258	276	295	313	331	349
$2.35	99	122	140	159	178	196	215	233	252	271	289	308	327	345	364
$2.40	108	131	150	169	188	207	226	245	264	283	302	321	340	359	379

NOTE: *** represents a number less than zero.
Figures shown are on a per ewe basis.
LIMITATION: It should be noted that the figures shown in table are estimates only.
Care should be taken in their use and interpretation.